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C O N F I D E N T I A L MOSCOW 001384

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SUBJECT: PUTIN PUSHES OIL TAX RELIEF

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PM PUTIN CALLS FOR TAX CUTS FOR OIL  
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¶1. (SBU) In his first few days as Prime Minister, Putin has publicly called for tax relief for the oil sector twice. In his introductory speech as Prime Minister and again in Primorsk on May 14th, Putin recommended a reduction in the Mineral Extraction Tax (MET), along with other proposals to support the sector, such as a tax holiday for certain production areas. Putin's comments follow several weeks of debate over the stifling effect of high taxes on oil production, with lobbying for a lower tax burden led by Rosneft, Lukoil, and others. Finance Minister Kudrin recently suggested raising the MET exemption (the oil price above which the tax applies) from \$9 to \$15 per barrel, while then-Minister of Industry and Energy Khristenko later implied even greater tax relief was on the way (reftel).

¶2. (C) Putin's statements in favor of tax cuts to spur production and development of new oil fields have convinced most analysts that some proposal will be forthcoming, but many are trying to lower expectations, expressing caution over a lack of details. Vlad Konovalov, Executive Director of the Petroleum Advisory Forum, the lobbying association for the "Western" oil and gas companies, told us May 15 that with Putin's backing, tax cuts are certain. But he doubted the government's willingness and ability to reform the tax code to the extent needed to reverse expected production stagnation and possible decline (reftel), especially given the long lead times in bringing new fields on-line.

¶3. (SBU) Putin's May 14th comments came as Deputy Prime Minister Igor Sechin (who is also Chairman of Rosneft and was President Putin's First Deputy Prime Minister), who now oversees the energy portfolio, announced that oil production will rise this year, contradicting widespread predictions of a decline in oil production in 2008.

¶4. (C) Putin's early support for oil sector tax relief suggests the seriousness with which he views declining production in Russia's key economic sector.  
RUSSELL